

CITY OF LUNA PIER
Monroe County, Michigan

ANNUAL FINANCIAL REPORT

June 30, 2008

CITY OF LUNA PIER

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Independent Auditor's Report

Honorable Mayor and
Members of City Council
City of Luna Pier
Luna Pier, Michigan 48157

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Luna Pier, Monroe County, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Luna Pier, Monroe County, Michigan as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 38 through 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor and
Members of City Council
City of Luna Pier

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Luna Pier, Monroe County, Michigan basic financial statements. The comparative and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The comparative and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Codley Hehl Wahlganuth + Carlton

September 19, 2008

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2008

This section of the City of Luna Pier's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the City's revenues and expenditures by program for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Fund.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Luna Pier financially as a whole. The ***Government-Wide Financial Statements***, which include the Statement of Net Assets and the Statement of Activities, provide information about the activities of the City as a whole and presents both a short-term and a long-term view of those finances. The ***Fund Financial Statements*** provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The ***Fund Financial Statements*** report the City's operations in more detail than the ***Government-Wide Financial Statements*** by providing information about the City's most significant funds - the General Fund, the Major Street Fund, the Local Street Fund, the Special Road Fund, the Community Development Fund, the Debt Retirement Fund, the Flood Control Facilities Fund, the Fire Millage Fund, and the Waste Water Treatment Plant Fund. The remaining statement, the Statement of Fiduciary Net Assets, presents financial information about activities for which the City acts solely as an agent for the benefit of the public. The following summary illustrates how the various parts of this annual report are arranged:

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

*Budgetary Information for Major Funds
(Required Supplemental Information)*

Other Supplemental Information

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2008*

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities (pages 11-13), which appear first in the City's financial statements, report information on the City as a whole and its activities. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the City's operating results. However, the City's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the services provided and the safety of the public to assess the overall health of the City.

The Statement of Net Assets and Statement of Activities report the governmental and business-type activities for the City, which encompass all of the City's services, including general government services, public safety, public works, culture, recreation, and waste water services. Property taxes, state grants, and charges for services finance most of these activities.

Fund Financial Statements

The City's Fund Financial Statements (pages 14-23) provide detailed information about the most significant or "major" funds - not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes other funds to control and manage money for particular purposes or to show that it is properly using revenues. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as described below:

Governmental funds - Many of the City's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the City and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation format in the financial section on pages 16 and 19.

Proprietary fund - A Proprietary Fund is used to account for business-type activities of the City which consists of the Waste Water Treatment Plant Fund. This fund accounts for services provided by the City where the City charges customers for the services it provides. This fund uses accrual accounting; the same method used by private sector business.

Fiduciary fund - An Agency Fund is used to account for assets held by the City as an agent for the collection and disbursement of property taxes.

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2008*

Financial Highlights

The following are some of the financial highlights for the 2007-08 fiscal year:

- ❖ Hired a full time City Administrator.
- ❖ Hired 2 full time police officers.
- ❖ Changed retirees, over 65 years of age that are eligible for Medicare, over to a Medicare Supplement and enrolled all other employees and retirees in a new medical plan for an approximate savings of \$85,000 per year.
- ❖ Updated sewer rates and charges to reflect actual costs for treatment of sewage.
- ❖ Updating our sewer contract with LaSalle Township to reflect the new sewer rates.
- ❖ Our Planning/Zoning Ordinance was updated to reflect changes in Michigan's zoning and planning laws.
- ❖ Jones and Henry Engineers were hired to study the Treatment Plant's structure and finances and are reporting on upgrades needed in order to be in compliance with D.E.Q. standards.
- ❖ Dangerous and disintegrating beach sill caps are being removed along the shoreline of the City.
- ❖ The beach sills that were removed were crushed to be used as stone in other areas of the City.
- ❖ The Fire Department received a donation of a used rescue vehicle to replace our outdated rescue vehicle.
- ❖ New fencing was installed around the D.P.W., Treatment Plant, and Gun Range to help ensure safety and security.
- ❖ Replaced two air conditioners in Council chambers.
- ❖ Created and implemented a website for the City – www.cityoflunapier.com.
- ❖ A blight house was demolished.
- ❖ Grant proposals were submitted for upgrades to our master plan, beach house, parks, docks, and parking lots. To date, we have already received one grant for \$3,000.
- ❖ Negotiated a new contract for the beach house for the summer season.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2008

Government-Wide Financial Analysis

Recall that the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets as of June 30, 2008 and 2007:

Table 1:

Comparative Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$2,251,644	\$2,208,032	\$78,124	\$67,480	\$2,329,768	\$2,275,512
Capital assets, net	1,063,581	1,044,129	1,757,027	1,831,051	2,820,608	2,875,180
Total Assets	3,315,225	3,252,161	1,835,151	1,898,531	5,150,376	5,150,692
Current and other liabilities	44,167	56,431	1,955	0	46,122	56,431
Long-term liabilities	68,761	57,386	0	0	68,761	57,386
Total Liabilities	112,928	113,817	1,955	0	114,883	113,817
Net Assets						
Invested in capital						
assets, net of related debt	1,063,581	1,044,129	1,757,027	1,831,051	2,820,608	2,875,180
Restricted for highways and streets	518,147	557,360	0	0	518,147	557,360
Restricted for debt service	3,028	3,028	0	0	3,028	3,028
Restricted for flood control	521,427	458,281	0	0	521,427	458,281
Restricted for fire protection	13,206	13,195	0	0	13,206	13,195
Unrestricted	1,082,908	1,062,351	76,169	67,480	1,159,077	1,129,831
Total Net Assets	<u>\$3,202,297</u>	<u>\$3,138,344</u>	<u>\$1,833,196</u>	<u>\$1,898,531</u>	<u>\$5,035,493</u>	<u>\$5,036,875</u>

As depicted in Table 1, the City's net assets were \$5.0 million at June 30, 2008. Of this amount, a positive \$1,159,077 was unrestricted. This amount represents the *accumulated* results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities we could with our current resources. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2008

Government-Wide Financial Analysis - Concluded

The results of this year's operations for the City as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for the fiscal year ended June 30, 2008 and 2007.

Table 2:

Comparative Statement of Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues						
Charges for services	\$114,445	\$116,382	\$285,388	\$182,199	\$399,833	\$298,581
Federal and state grants	141,296	111,326	0	0	141,296	111,326
	255,741	227,708	285,388	182,199	541,129	409,907
General revenues						
Property taxes	1,093,104	1,133,972	0	0	1,093,104	1,133,972
State grants	124,798	125,494	0	0	124,798	125,494
Other general revenues and transfers out	30,075	82,726	83,693	64,877	113,768	147,603
	1,247,977	1,342,192	83,693	64,877	1,331,670	1,407,069
Total Revenues	1,503,718	1,569,900	369,081	247,076	1,872,799	1,816,976
Functions/Program Expenses						
Legislative	7,250	4,800	0	0	7,250	4,800
General government	241,581	272,680	0	0	241,581	272,680
Public safety	369,609	346,784	0	0	369,609	346,784
Public works	368,518	265,181	0	0	368,518	265,181
Recreation and cultural	47,883	52,962	0	0	47,883	52,962
Interest on long-term debt	0	1,991	0	0	0	1,991
Other	404,924	418,110	0	0	404,924	418,110
Waste Water Treatment Plant	0	0	434,416	409,606	434,416	409,606
Total Expenses	1,439,765	1,362,508	434,416	409,606	1,874,181	1,772,114
Increase (Decrease) in Net Assets	\$63,953	\$207,392	(\$65,335)	(\$162,530)	(\$1,382)	\$44,862

As indicated in Table 2, the cost of *all governmental* activities this year was \$1.9 million. Of this amount, \$0.5 million was subsidized with revenue generated from charges for services and grants with the remaining costs financed with general revenues.

The City experienced a decrease in net assets of \$1,382. The decrease in net assets differs from the change in fund balance. A reconciliation of the change in fund balances for the governmental funds to the change in net assets appears on page 16.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2008

Fund Financial Analysis

As noted earlier, the City uses funds to help control and manage money for particular purposes. Looking at funds helps the reader consider whether the City of Luna Pier is being held accountable for the resources taxpayers and others provide to it and may give more insight into the City's overall financial health.

As the City completed this year, the funds accounting for the governmental activities reported a combined fund balance of \$2,207,477, which is an increase of \$55,876 from last year. The changes by fund types are as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Retirement Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Fund balances - Beginning of year	\$843,528	\$833,569	\$3,028	\$471,476	\$2,151,601
Increase (decrease)	<u>(1,699)</u>	<u>(5,582)</u>	<u>-</u>	<u>63,157</u>	<u>55,876</u>
Fund balances – End of year	<u><u>\$841,829</u></u>	<u><u>\$827,987</u></u>	<u><u>\$3,028</u></u>	<u><u>\$534,633</u></u>	<u><u>\$2,207,477</u></u>

The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities of the General Fund.

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percent Change</u>
Revenues			
Property taxes	\$993,622	\$ 944,659	5.1 %
Licenses and permits	23,291	39,592	(41.1)%
Federal grants	-	4,833	(100.0)%
State grants	126,191	127,037	(0.6)%
Local grants	-	6,792	(100.0)%
Charges for services	45,322	35,589	27.3 %
Fines and forfeits	3,628	2,901	25.0 %
Interest	41,781	47,520	(12.0)%
Rentals	60,031	45,780	31.1 %
Other	<u>18,473</u>	<u>42,272</u>	(56.2)%
Total Revenues	<u><u>\$1,312,339</u></u>	<u><u>\$1,296,975</u></u>	1.1 %

CITY OF LUNA PIER

Management's Discussion and Analysis *Year Ended June 30, 2008*

Fund Financial Analysis – Concluded

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percent Change</u>
Expenditures			
Legislative	\$ 7,250	\$ 4,800	51.0 %
General government	230,627	233,895	(1.3)%
Public safety	326,033	266,179	22.4 %
Public works	226,994	188,013	20.7 %
Recreation and cultural	34,615	39,926	(13.3)%
Other	404,924	418,110	(3.1)%
Operating transfers out	83,595	63,498	31.6 %
	<u>\$1,314,038</u>	<u>\$1,214,421</u>	8.2 %

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the City Council to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the City revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the City's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Revisions to the General Fund original budget were as follows:

Revenues - Although no revisions were made to the revenue budget of \$1,447,499, several factors impact the planning of it. The City relies heavily on property taxes to fund General Fund expenditures. Property taxes of \$993,622 (up \$48,963 from the prior year) make up 76% of the General Fund revenues. Consumers Power Company pays approximately 61% of the property taxes. Federal and State revenues, which totaled \$126,191, (down \$5,679 from last year) represented approximately 10% of total revenues. Also during the 2007-08 fiscal year, the City realized increases in rentals and charges for services income. Projected reductions in state-shared revenues, along with a modest increase in taxable value, cause the Council to have a very conservative outlook.

Expenditures - The original budget of \$1,483,287 was not changed, but various departments were adjusted during the year. The budgeted expenditures were increased for several departments, the major ones of which were streetlights \$15,000, and pension \$65,000. The major departments that saw decreases were insurance and bonds \$12,000 and hospital and dental insurance \$70,700.

CITY OF LUNA PIER

Management's Discussion and Analysis Year Ended June 30, 2008

Capital Asset and Debt Administration

Capital Assets

At June 30, 2008, the City had \$6.2 million invested in a broad range of capital assets, including land, roads, land improvements, building and building improvements, machinery and equipment, vehicles, a waste water treatment plant, and sewer lines. This year's net additions of \$156,362 included street construction, a copier, a tractor, a police car, a fence, a welder, and fire equipment. Depreciation for governmental activities totaled \$124,230, and depreciation for business-type activities totaled \$74,023. Detailed information regarding capital assets is included in Note 7 to the financial statements.

Debt Administration

At June 30, 2008, the City had accrued a liability for unused vacation and personal days, which totaled \$68,761 at June 30, 2008. Detailed information regarding the City's debt is included in Note 8 to the financial statements.

Development of the 2008-09 Fiscal Year Budget

Our elected officials considered many factors when setting the City's 2008-09 fiscal year budget. The City has taken several measures to help control the rising cost of the governmental services and the ongoing decline of state revenue sharing. For 2008-09, the City anticipates General Fund revenues of \$1,415,240 and expenditures of \$1,471,250 which will use up \$56,010 of the June 30, 2008 fund balance. Also for 2008-09, sewer rates were increased which should allow the waste water treatment plant to break-even without a contribution from the General Fund.

Contacting the City of Luna Pier

This financial report is designed to provide the City's citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate their accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk, City of Luna Pier, 4357 Buckeye Street, Luna Pier, MI 48157.

CITY OF LUNA PIER

*Statement of Net Assets
June 30, 2008*

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$2,069,090	\$2,756	\$2,071,846
Accounts/loans receivable	\$104,537	67,540	172,077
Due from other governmental units	42,199	0	42,199
Prepaid expenses	35,818	7,828	43,646
Depreciable capital assets, net	1,063,581	1,757,027	2,820,608
 Total Assets	 3,315,225	 1,835,151	 5,150,376
Liabilities			
Accounts payable	28,741	1,955	30,696
Deferred revenue	15,426	0	15,426
Long-term liabilities:			
Due in more than one year	68,761	0	68,761
 Total Liabilities	 112,928	 1,955	 114,883
Net Assets			
Invested in capital assets, net of related debt	1,063,581	1,757,027	2,820,608
Restricted:			
Restricted for highways and streets	518,147	0	518,147
Restricted for debt service	3,028	0	3,028
Restricted for flood control	521,427	0	521,427
Restricted for fire protection	13,206	0	13,206
Unrestricted	1,082,908	76,169	1,159,077
 Total Net Assets	 \$3,202,297	 \$1,833,196	 \$5,035,493

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Statement of Activities *Year Ended June 30, 2008*

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government -			
Governmental activities:			
Legislative	\$7,250	\$0	\$0
General government	241,581	44,375	0
Public safety	369,609	26,919	1,393
Public works	368,518	37,743	139,903
Recreation and cultural	47,883	0	0
Other	404,924	5,408	0
Total Governmental Activities	1,439,765	114,445	141,296
Business-type activities:			
Waste water treatment plant	434,416	285,388	0
Total business type activities	434,416	285,388	0
Total primary government	<u>\$1,874,181</u>	<u>\$399,833</u>	<u>\$141,296</u>

General Revenues:

- Property taxes
- State grants
- Interest and investment earnings
- Gain on sale of equipment
- Other
- Transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets Primary Government		
Governmental Activities	Business-type Activities	Total
(\$7,250)	\$0	(\$7,250)
(197,206)	0	(197,206)
(341,297)	0	(341,297)
(190,872)	0	(190,872)
(47,883)	0	(47,883)
(399,516)	0	(399,516)
(1,184,024)	0	(1,184,024)
0	(149,028)	(149,028)
0	(149,028)	(149,028)
(1,184,024)	(149,028)	(1,333,052)
1,093,104	0	1,093,104
124,798	0	124,798
77,370	98	77,468
877	0	877
35,423	0	35,423
(83,595)	83,595	0
1,247,977	83,693	1,331,670
63,953	(65,335)	(1,382)
3,138,344	1,898,531	5,036,875
\$3,202,297	\$1,833,196	\$5,035,493

CITY OF LUNA PIER

Governmental Funds Balance Sheet June 30, 2008

	Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund
Assets					
Cash and investments	\$730,524	\$515,476	\$33,610	\$29,893	\$206,075
Accounts/loans receivable	772	0	0	0	103,765
Due from other governmental units	42,199	0	0	0	0
Due from other funds	62,658	0	15,231	0	0
Prepaid expenses	35,818	0	0	0	0
Total Assets	<u>\$871,971</u>	<u>\$515,476</u>	<u>\$48,841</u>	<u>\$29,893</u>	<u>\$309,840</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$14,716	\$0	\$0	\$0	\$0
Due to other funds	0	37,984	38,079	0	0
Deferred revenue	15,426	0	0	0	0
Total Liabilities	<u>30,142</u>	<u>37,984</u>	<u>38,079</u>	<u>0</u>	<u>0</u>
Fund Balances					
Reserved for prepaid expenses	35,818	0	0	0	0
Reserved for noncurrent receivables	0	0	0	0	101,104
Reserved for debt service	0	0	0	0	0
Unreserved:					
Designated for special projects	241,505	0	0	0	0
Undesignated, reported in:					
General Fund	564,506	0	0	0	0
Special Revenue Funds	0	477,492	10,762	29,893	208,736
Capital Projects Funds	0	0	0	0	0
Total Fund Balances	<u>841,829</u>	<u>477,492</u>	<u>10,762</u>	<u>29,893</u>	<u>309,840</u>
Total Liabilities and Fund Balances	<u>\$871,971</u>	<u>\$515,476</u>	<u>\$48,841</u>	<u>\$29,893</u>	<u>\$309,840</u>

See accompanying notes to the basic financial statements.

Debt Retirement Fund	Capital Project Funds		Total Governmental Funds
	Flood Control Facilities Fund	Fire Millage Fund	
\$3,028	\$536,365	\$14,119	\$2,069,090
0	0	0	104,537
0	0	0	42,199
0	0	0	77,889
0	0	0	35,818
<u>\$3,028</u>	<u>\$536,365</u>	<u>\$14,119</u>	<u>\$2,329,533</u>
\$0	\$14,025	\$0	\$28,741
0	913	913	77,889
0	0	0	15,426
0	14,938	913	122,056
0	0	0	35,818
0	0	0	101,104
3,028	0	0	3,028
0	0	0	241,505
0	0	0	564,506
0	0	0	726,883
0	521,427	13,206	534,633
<u>3,028</u>	<u>521,427</u>	<u>13,206</u>	<u>2,207,477</u>
<u>\$3,028</u>	<u>\$536,365</u>	<u>\$14,119</u>	<u>\$2,329,533</u>

CITY OF LUNA PIER

*Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2008*

Total Fund Balances - Governmental Funds		\$2,207,477
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
Cost of the capital assets	\$2,616,945	
Accumulated depreciation	<u>(1,553,364)</u>	
		1,063,581
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Compensated absences		<u>(68,761)</u>
Total Net Assets - Governmental Activities		<u>\$3,202,297</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2008*

	Special Revenue Funds				
	General Fund	Major Street Fund	Local Street Fund	Special Road Fund	Community Development Fund
Revenues					
Taxes	\$993,622	\$0	\$0	\$0	\$0
Licenses and permits	23,291	0	0	0	0
Federal grants	0	0	0	0	30,345
State grants	126,191	59,958	36,624	0	0
Local grants	0	0	12,976	0	0
Charges for services	45,322	0	0	0	0
Fines and forfeits	3,628	0	0	0	0
Interest income	41,781	13,586	182	669	4,538
Rentals	60,031	0	0	0	0
Other revenue	18,473	0	0	0	0
Total Revenues	1,312,339	73,544	49,782	669	34,883
Expenditures					
Legislative	7,250	0	0	0	0
General government	230,627	0	0	0	1,252
Public safety	326,033	0	0	0	0
Public works	226,994	37,376	125,332	500	0
Recreation and cultural	34,615	0	0	0	0
Other	404,924	0	0	0	0
Total Expenditures	1,230,443	37,376	125,332	500	1,252
Excess (Deficiency) of Revenues Over Expenditures	81,896	36,168	(75,550)	169	33,631
Other Financing Sources (Uses)					
Operating transfers in	0	0	59,979	0	0
Operating transfers out	(83,595)	(29,979)	0	(30,000)	0
Total Other Financing Sources (Uses)	(83,595)	(29,979)	59,979	(30,000)	0
Net Change in Fund Balances	(1,699)	6,189	(15,571)	(29,831)	33,631
Fund Balances - Beginning of year	843,528	471,303	26,333	59,724	276,209
Fund Balances - End of year	<u>\$841,829</u>	<u>\$477,492</u>	<u>\$10,762</u>	<u>\$29,893</u>	<u>\$309,840</u>

See accompanying notes to the basic financial statements.

Debt Retirement Fund	Capital Projects Funds		Total Governmental Funds
	Flood Control Facilities Fund	Fire Millage Fund	
\$0	\$99,482	\$11	\$1,093,115
0	0	0	23,291
0	0	0	30,345
0	0	0	222,773
0	0	0	12,976
0	0	0	45,322
0	0	0	3,628
0	16,603	0	77,359
0	0	0	60,031
0	0	0	18,473
0	116,085	11	1,587,313
0	0	0	7,250
0	0	0	231,879
0	0	0	326,033
0	52,939	0	443,141
0	0	0	34,615
0	0	0	404,924
0	52,939	0	1,447,842
0	63,146	11	139,471
0	0	0	59,979
0	0	0	(143,574)
0	0	0	(83,595)
0	63,146	11	55,876
3,028	458,281	13,195	2,151,601
<u>\$3,028</u>	<u>\$521,427</u>	<u>\$13,206</u>	<u>\$2,207,477</u>

CITY OF LUNA PIER

*Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2008*

Total Net Change in Fund Balances - Governmental Funds		\$55,876
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	(\$124,230)	
Capital outlay	<u>156,362</u>	
		32,132
Net book value of the trade-in of fixed assets reduces the assets in the statement of activities; but does not effect the governmental funds		(12,680)
Increases in the liability for compensated absences are reported as expenditures in the statement of activities; but not in the governmental funds		<u>(11,375)</u>
Change in Net Assets of Governmental Activities		<u>\$63,953</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER*Proprietary Fund
Statement of Net Assets
June 30, 2008*

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Assets	
Current Assets:	
Cash	\$2,756
Receivables	67,540
Prepaid expenses	7,828
Total Current Assets	<u>78,124</u>
Capital Assets	3,604,786
Less: Allowance for depreciation	(1,847,759)
Total Capital Assets	<u>1,757,027</u>
Total Assets	<u>1,835,151</u>
Liabilities	
Current Liabilities:	
Accounts payable	<u>1,955</u>
Total Liabilities	<u>1,955</u>
Net Assets	
Invested in capital assets, net of related debt	1,757,027
Unrestricted	<u>76,169</u>
Total Net Assets	<u>\$1,833,196</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2008

	Business-type Activities Enterprise Fund Waste Water Treatment Plant Fund
Operating Revenues	
Charges for services	\$284,240
Other revenue	808
Permits	340
Total Operating Revenues	285,388
Operating Expenses	
Sewer processing and maintenance	428,267
Administration	6,149
Total Operating Expenses	434,416
Net Operating Income (Loss)	(149,028)
Non-Operating Revenues (Expenses)	
Interest income	98
Net Income (Loss) Before Transfers	(148,930)
Transfers in	83,595
Change in Net Assets	(65,335)
Net Assets - Beginning of year	1,898,531
Net Assets - End of year	\$1,833,196

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Proprietary Fund
Statement of Cash Flows
Year Ended June 30, 2008*

	Business-type Activities Enterprise Fund <u>Waste Water Treatment Plant Fund</u>
Cash Flows from Operating Activities	
Receipts from customers	\$277,198
Payments to suppliers	(237,456)
Payments to employees	(121,299)
Net cash provided by operating activities	<u>(81,557)</u>
Cash Flows from Noncapital Financing Activities	
Transfers in	83,595
Cash Flows from Investing Activities	
Interest income	<u>98</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,136
Cash and Cash Equivalents - Beginning of Year	<u>620</u>
Cash and Cash Equivalents - End of Year	<u><u>\$2,756</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income (loss)	(\$149,028)
Adjustments to reconcile operating income (loss) to net cash from operating activities:	
Depreciation	74,023
Changes in operating assets and liabilities	
Receivables	(8,189)
Prepaid expenses	(318)
Accounts payable	<u>1,955</u>
Net Cash Provided by Operating Activities	<u><u>(\$81,557)</u></u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

*Agency Fund
Statement of Fiduciary Net Assets
June 30, 2008*

	<u>Tax Collection Agency Fund</u>
Assets	
Cash	<u>\$1,000</u>
Liabilities	
Due to other taxing units	\$1,000
Due to other governmental units	<u>0</u>
Total Liabilities	<u>\$1,000</u>

See accompanying notes to the basic financial statements.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 1 Description of the City and Reporting Entity

The City operates under a locally elected five member Council form of government and provides the following services: public safety (police and fire), highways and streets, sanitation, recreation and culture, public improvements, planning and zoning, waste water treatment, and general administrative services.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, Councils, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. Component units may also include organizations that are fiscally dependent on the City in that the City approves their budget, the issuance of their debt, or the levying of taxes. The City has no component units.

The following entities are not included herein as they operate as autonomous units:

Luna Pier Housing Commission

This entity is responsible for the public housing project within the City. The Commission is responsible to the Department of Housing and Urban Development (HUD) for its fiscal management and HUD is responsible for the debt of the project which is not guaranteed by the City.

South County Water System

This is a joint venture between the City, LaSalle Township, Erie Township, Bedford Township, and the County of Monroe to provide water to these municipalities located within the County of Monroe.

Note 2 Summary of Significant Accounting Policies

The financial statements of the City of Luna Pier have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Council (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. Following are the more significant of the City's accounting policies.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation

A. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities which rely, to a significant extent on fees and charges for support. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Amounts reported as program revenue include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. General revenue includes taxes, intergovernmental payments, sales of property, and other items not properly included among program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and agency funds, even though the latter are excluded from the government-wide financial statements. Major governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Governmental fund expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Agency fund statements also are reported using the economic resources measurement focus and the cash basis of accounting.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. The General Fund accounts for all financial resources of the City, except those required to be accounted for in another fund.

The Major Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all major streets.

The Local Street Fund accounts for gas and weight tax monies from the State of Michigan and expenditures for construction and maintenance of all local streets.

The Special Road Fund accounts for proceeds from a tax millage for road improvements.

The Community Development Fund accounts for all monies received by the City from the block grant programs.

The Debt Retirement Fund accounts for monies used to pay general obligation bonds contractually liable by the City to the South County Water System.

The Flood Control Facilities Fund accounts for revenues and expenditures used for constructing and maintaining flood control facilities.

The Fire Millage Fund accounts for proceeds from a tax millage for a pumper fire truck and fire protection equipment.

The City reports the following major proprietary fund:

The Waste Water Treatment Plant Fund accounts for the operation of the waste water treatment plant financed through user charges and transfers.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Waste Water Treatment Plant Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The City does not have any nonmajor governmental funds.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2008

Note 2 Summary of Significant Accounting Policies (Continued) Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Property Tax Receivable - Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 and December 1 of the following year. Summer taxes are considered delinquent July 31 and Winter taxes are considered delinquent February 14 of the following year.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. sewer lines, road, etc.) are reported in the applicable governmental or business-type activities columns of the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost when actual cost information is not available. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Roads	20 years
Land Improvements	20 years
Buildings and Buildings Improvements	20-60 years
Machinery and Equipment	3-30 years
Vehicles	5-8 years
Sewer Lines	60 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental activities column of the statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Accrued Liabilities and Long-Term Obligations - In the government-wide financial statements and proprietary fund financial statements, long-term debts, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 2

Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

C. Assets, Liabilities, and Net Assets or Equity (Concluded)

In general, payables and accrued liabilities that once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Payments of long-term loans that are paid from governmental funds are recognized as an expenditure on the governmental fund financial statements when due.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

Interfund Transactions - Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

Fund Balance Reserves and Designations - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Compensated Absences - City employees are granted vacation and personal days under formulas and conditions in the employee's contract. The vacation and personal pay is accrued in the government-wide financial statements. In the fund financial statements, these accounts are reported when paid.

- D. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported on the financial statements and accompanying notes. Actual results may differ from those estimates.
- E. Extraordinary and Special Items - Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2008.
- F. Budgetary Policies - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The General Fund and all Special Revenue Funds are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the City Council at the function level. Any budgetary modifications may only be made by the City Council.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 2 Summary of Significant Accounting Policies (Concluded)

Basis of Presentation (Concluded)

F. Budgetary Policies (Concluded)

The City follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

1. Prior to June 30, the fiscal officer submits to the City Council a proposed operating budget for the fiscal year commencing on July 1.
2. A public hearing is conducted during June to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of a resolution.
4. During the year the budget is monitored, and amendments to the budget deemed necessary are approved by the City Council.
5. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Lapsing of Appropriations - At the close of each year all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriations.

Note 3 Stewardship, Accountability and Compliance

The City shall not incur expenditures in excess of the amount appropriated. Annual budgets are adopted on a basis that is consistent with generally accepted accounting principles and State Law for the General and Special Revenue Funds. Even though not required by State Law, the City adopts budgets for the Debt Retirement Fund and the Capital Projects Funds.

In the required supplemental information, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis, which is the adopted legal level of control.

Note 4 Deposits

Statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities; commercial paper within the three highest rate classifications by at least two rating services; bankers' acceptances of U.S. banks, U.S. or agency repurchase agreements; savings accounts and certificates of deposit with banks and savings and loan associations, or credit unions which are insured with the applicable federal agency. Public funds of the City may not be deposited in financial institutions located in states other than Michigan.

Public Act 367 of 1982 (known as the Surplus Funds Investment Pool Act) enables municipalities to invest surplus operating funds in investment pools managed by qualified financial institutions. At June 30, 2008, the City of Luna Pier had invested in such a fund with a local bank. The City is able to retrieve these funds without restriction and, accordingly, this amount is considered to be available cash. The local bank invests these funds in a variety of instruments including bonds and direct obligations of the United States, certificates of deposit, commercial paper rated within the three highest classifications by not less than two standard rating services, United States government or federal agency obligation repurchase agreements and bankers acceptances of the United States banks.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2008

Note 4

Deposits (Concluded)

The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, and since State of Michigan legislation does not require that all deposits be collateralized, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk at each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Council has adopted an investment policy authorizing certain types of investments and authorized one depository: Monroe Bank and Trust.

Interest rate risk. The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities listed in the City's investment policy.

Concentration of credit risk. The City does not place any limits on the amount the City may deposit or invest in any one issuer.

Custodial credit risk. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover the collateral securities in the possession of an outside party. The City has \$2,097,097 invested in certificates of deposit, checking accounts, and money markets. The City's deposits are insured by the FDIC in the amount of \$100,000, with uninsured deposits of \$1,997,097. The City's deposits are at institutions with an established record of fiscal health and service. The City Council approves and designates a list of authorized depository institutions. The City's investment policy does not address deposit risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 5 Interfund Payables and Receivables
Such balances at June 30, 2008 were:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund:		
Major Street Fund	\$22,753	\$ -
Local Street Fund	38,079	-
Fire Millage Fund	913	-
Flood Control Facility Fund	913	-
Major Street Fund:		
General Fund	-	22,753
Local Street Fund	-	15,231
Local Street Fund:		
General Fund	-	38,079
Major Street Fund	15,231	-
Fire Millage Fund:		
General Fund	-	913
Flood Control Facility Fund:		
General Fund	-	913
	<u>\$77,889</u>	<u>\$77,889</u>

Interfund balances reflect temporary loans and reimbursements due in the normal course of interfund activity.

Note 6 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2008, consisted of the following:

	<u>Transfers Out</u>			
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Special Road Fund</u>	<u>Total</u>
<u>Transfers In:</u>				
Local Street Fund	\$ -	\$29,979	\$30,000	\$ 59,979
Waste Water Treatment Plant Fund	<u>83,595</u>	-	-	<u>83,595</u>
	<u>\$83,595</u>	<u>\$29,979</u>	<u>\$30,000</u>	<u>\$143,574</u>

The transfers from the Major Street Fund and the Special Road Fund to the Local Street Fund were for local street preservation and maintenance. The transfer from the General Fund to the Waste Water Treatment Plant Fund was to help pay for operation of the waste water plant.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 7

Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental Activities				
Assets not being depreciated:				
Land	\$3,100	\$0	\$0	\$3,100
	<u>3,100</u>	<u>0</u>	<u>0</u>	<u>3,100</u>
Capital assets being depreciated:				
Roads	87,400	78,104	0	165,504
Land improvements	459,342	6,200	0	465,542
Buildings and building improvements	683,839	0	0	683,839
Machinery and equipment	518,933	48,487	15,001	552,419
Vehicles	743,610	23,571	20,640	746,541
	<u>2,493,124</u>	<u>156,362</u>	<u>35,641</u>	<u>2,613,845</u>
Total capital assets	2,496,224	156,362	35,641	2,616,945
Less accumulated depreciation:				
Roads	(8,636)	(8,275)	0	(16,911)
Land improvements	(203,729)	(19,843)	0	(223,572)
Buildings and building improvements	(339,124)	(14,843)	0	(353,967)
Machinery and equipment	(379,276)	(34,814)	(2,322)	(411,768)
Vehicles	(521,331)	(46,455)	(20,640)	(547,146)
	<u>(1,452,096)</u>	<u>(124,230)</u>	<u>(22,962)</u>	<u>(1,553,364)</u>
Total accumulated depreciation	(1,452,096)	(124,230)	(22,962)	(1,553,364)
Net capital assets	<u>\$1,044,128</u>	<u>\$32,132</u>	<u>\$12,679</u>	<u>\$1,063,581</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 13,976
Public safety	70,460
Public works	26,526
Recreation and cultural	<u>13,268</u>
Total governmental activities	<u>\$124,230</u>

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 7 Capital Assets (Concluded)

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Business-type Activities (Waste Water Treatment Plant Fund)				
Assets not being depreciated:				
Land	\$6,500	\$0	\$0	\$6,500
Capital assets being depreciated:				
Treatment plant	1,930,575	0	0	1,930,575
Sewer lines	1,051,207	0	0	1,051,207
Machinery and equipment	600,024	0	0	600,024
Vehicles	16,480	0	0	16,480
Total capital assets	3,604,786	0	0	3,604,786
Less accumulated depreciation:				
Treatment plant	(836,159)	(47,021)	0	(883,180)
Sewer lines	(364,418)	(17,521)	0	(381,939)
Machinery and equipment	(556,679)	(9,481)	0	(566,160)
Vehicles	(16,480)	0	0	(16,480)
Total accumulated depreciation	(1,773,736)	(74,023)	0	(1,847,759)
Net capital assets	<u>\$1,831,050</u>	<u>(\$74,023)</u>	<u>\$0</u>	<u>\$1,757,027</u>

Note 8 Long-Term Debt

The following is a summary of long-term debt outstanding as of June 30, 2008:

Other Liabilities:

 Compensated Absences

 Payable \$68,761

Changes in principal during the 2007-08 fiscal period are summarized as follows:

	<u>Balance</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Compensated Absences					
Payable	<u>\$57,386</u>	<u>\$11,375</u>	<u>\$_____</u>	<u>\$68,761</u>	<u>\$_____</u>

Compensated absences payable represents vested benefits for unused vacation and personal days under formulas and conditions specified in the employee's contract.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 9 Property Taxes

The City bills and collects its own property taxes and also taxes for the County of Monroe, State of Michigan, Monroe County Community College, Monroe County Intermediate School District, Mason Consolidated School District, and delinquent water bills for the South County Water System. Summer property taxes are billed on July 1 each year and collected by the City from July 1 to July 31. Winter property taxes are billed on December 1 each year and collected from December 1 to February 14.

The taxable valuation for both real and personal property as of December 31, 2006, amounted to \$101,101,858 which was based on a percentage of the fair market value of the assessed property. The 2007 tax roll consisted of the following:

	<u>General Operating</u>	<u>Flood Control Facilities Fund</u>	<u>Totals</u>
Mills	9.8304	0.9859	10.8163
Levy	\$993,867	\$99,672	\$1,093,539

Included within the boundaries of the City of Luna Pier is a Consumers Power Company electric utility plant. A breakdown of the 2007 levy between the Consumers Power Company and other property is as follows:

Consumers Power Company	\$ 671,527
Other	<u>422,012</u>
	<u>\$1,093,539</u>

Note 10 Sewer Use Charge

Ordinance No. 67, as amended by Ordinance No. 90, Ordinance No. 145, Ordinance No. 175, and Ordinance No. 197 established a charge to customers for use of the City of Luna Pier Waste Water Treatment System. The latest ordinance changed the customer charge from a flat-fee per residential unit to fees based on a fixed rate charge (depending on the size of the water meter) and volume charge (depending on the amount of water usage). The new rates per Resolution No. 779 vary from a fixed rate quarterly charge of \$26.88 for a 5/8 inch meter to \$850 for a 6 inch meter. The volume charge was established at \$6.73 per 1,000 gallons of water usage. These fees are in addition to fees required for connections and permits and other fees required by other ordinances.

CITY OF LUNA PIER

Notes to Financial Statements *Year Ended June 30, 2008*

Note 11 Employee's Pension Plan

Plan Description

The City of Luna Pier is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System of Michigan (MERS), administered by the State of Michigan.

Benefit provisions and all other requirements are established by state statute and City council resolution. All full time City employees are eligible to participate in the system. Benefits vest after 10 years of service. Covered employees are eligible to retire at age 60 with 10 or more years of credited service or age 55 with 15 or more years of credited service or age 50 with 25 or more years of credited service. Monthly benefits are calculated by multiplying credited service at time of termination of membership by 2% of the member's three-year final average compensation. The retirement allowance is reduced $\frac{1}{2}$ of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. There is no mandatory retirement age. The system also provides death and disability benefits. Benefits are established by State statute and City Council resolution.

The Municipal Employees Retirement System of Michigan issues a publicly available financial report which may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48197.

Funding Policy

All full-time employees contribute 5% of their salary to the plan which amounted to \$22,227 for the fiscal year ending June 30, 2008. The City is required to contribute the remaining amounts necessary to fund the system, using the actuarial basis specified by State statute. The City's annual required contribution was \$153,368 for the fiscal year ending June 30, 2008 (34.5% of covered payroll). The contribution requirements of plan members and the City are established by the City and by the MERS Council of Trustees.

Annual Pension Cost

For the fiscal year ending June 30, 2008, the City's annual pension cost of \$153,368 for the plan was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age normal cost method. Significant actuarial assumptions include (a) 8.0% investment rate of return, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 8.4%, depending on age, attributable to seniority/merit and, (d) assumptions that benefits will increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over 30 years.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2008

Note 11 Employee's Pension Plan (Concluded) Three-year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension Cost</u>	<u>Percentage of</u> <u>Annual Pension</u> <u>Cost Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/06	\$ 27,785	100%	\$ -
6/30/07	77,616	100%	-
6/30/08	153,368	100%	-

	<u>Valuation Ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$2,603,041	\$2,618,010	\$2,711,299
Actuarial accrued liability (entry age)	3,936,371	3,984,359	4,108,564
Unfunded AAL	(1,333,330)	(1,366,349)	(1,397,265)
Funded ratio	66%	66%	66 %
Annual payroll	271,336	269,405	387,340
UAAL as a percentage of annual covered payroll	491%	507%	361%

Note 12 Contingent Liability

The City of Luna Pier is subject to the Michigan Employment Security Act and would be liable for valid unemployment claims on a reimbursement basis. No provision has been made for this potential liability.

Note 13 Lake Front Sewer Projects

On March 11, 1988, the City of Luna Pier signed a contract with LaSalle Township which specified that the City of Luna Pier will provide the capacity for treatment of the City's wastewater at the City of Luna Pier Wastewater Treatment Plant. Under the agreement, LaSalle Township is responsible for the financing and construction of a portion of the expansion to the present system. As of June 30, 1991, the expansion of the system had been completed. The City of Luna Pier is responsible for the operation and maintenance of the system and LaSalle Township is liable for a minimum annual usage charge of \$85,673. The City received a grant from the Environmental Protection Agency for \$1,190,300, which covered approximately 55% of the eligible costs relating to the expansion of the present system and the sewer lines in LaSalle Township. Total costs of the project were approximately \$2,907,703, with the City of Luna Pier contributing \$130,000. Costs relating to the expansion of Luna Pier's system amounted to \$1,378,251.

Note 14 Health Care and Life Insurance

In addition to providing pension benefits, the City provides certain health care and life insurance benefits for retired employees. Substantially all of the City's full time employees may become eligible for those benefits if they reach normal retirement age while working for the City. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$225,005 for the year ended June 30, 2008. \$119,505 of this yearly expense was for premiums for twelve retirees.

CITY OF LUNA PIER

Notes to Financial Statements Year Ended June 30, 2008

Note 15 Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions and employee injuries (workman's compensation). The City has purchased commercial insurance for property loss, torts, errors, omissions, and employee injuries.

Note 16 Joint Venture

The South County Water System is a joint venture with the County of Monroe and four municipalities: LaSalle Township, Bedford Township, Erie Township, and the City of Luna Pier. However, the municipalities do not have an equity interest in this joint venture. The City of Luna Pier and the other three municipalities entered into a contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$1,400,000 bond issue dated July 1, 1995. The bond proceeds were used for renovations and improvements to the South County Water System. The City of Luna Pier and the other three municipalities entered into another contract with the County of Monroe whereby each municipality has pledged their full faith and credit to provide debt service payments on the \$4,400,000 bond issue dated October 1, 2005. The bond proceeds were used to acquire and construct improvements to the South County Water System, and \$280,000 of the bond issue was used to redeem the balance of the 1995 bond issue dated July 1, 1995. Each municipality is obligated for their share of the obligation based on the assessed property valuations which are computed annually. Currently, the South County Water System provides the debt retirement requirements on the \$4,400,000 bond issue which are paid from the system's revenues.

As of June 30, 2008, the City of Luna Pier's obligation for this bond issue is 6.6464%. The following is the financial information of the joint venture, obtained from the Monroe County Drain Commissioner, County Agency financial report as of December 31, 2007:

Total assets	\$32,648,282
Total liabilities	4,475,058
Total net assets	28,173,224
Total revenues	4,930,221
Total expenses	3,655,255
Total increase in system equity	1,274,966
Current portion of long-term debt	145,000
Long-term debt (net of discounts)	3,976,850

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$995,049	\$995,049	\$991,137	(\$3,912)
Payment in lieu of taxes	13,500	13,500	10	(13,490)
Penalties and interest	1,000	1,000	2,475	1,475
	<u>1,009,549</u>	<u>1,009,549</u>	<u>993,622</u>	<u>(15,927)</u>
Licenses and permits:				
Building permits	15,000	15,000	7,194	(7,806)
Plan review fee	2,000	2,000	100	(1,900)
Plumbing permits	2,500	2,500	1,313	(1,187)
Parking and launching permits	2,300	2,300	3,908	1,608
Parking - Pay and Display	5,200	5,200	5,375	175
Electrical permits	4,000	4,000	3,846	(154)
Mechanical permits	6,500	6,500	1,355	(5,145)
Other	1,100	1,100	200	(900)
	<u>38,600</u>	<u>38,600</u>	<u>23,291</u>	<u>(15,309)</u>
Federal grants:				
FEMA grant - fire department	8,000	8,000	0	(8,000)
State grants:				
State shared revenue	130,000	130,000	124,798	(5,202)
Liquor license fees	850	850	693	(157)
Police grants	500	500	700	200
	<u>131,350</u>	<u>131,350</u>	<u>126,191</u>	<u>(5,159)</u>
Charges for services:				
Tax administration fee	24,000	24,000	22,087	(1,913)
Cablevision fee	5,000	5,000	5,304	304
Bed tax - Super 8	9,000	9,000	12,523	3,523
Fringe benefit recovery	4,000	4,000	5,408	1,408
	<u>42,000</u>	<u>42,000</u>	<u>45,322</u>	<u>3,322</u>
Fines and forfeits	3,000	3,000	3,628	628
Interest income	40,000	40,000	41,781	1,781

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues(Concluded)				
Rentals:				
Equipment rental	\$23,000	\$23,000	\$37,743	\$14,743
Building rental	8,000	8,000	9,588	1,588
Bath house rental	1,500	1,500	1,300	(200)
AT&T tower land lease	10,000	10,000	11,400	1,400
	<u>42,500</u>	<u>42,500</u>	<u>60,031</u>	<u>17,531</u>
Other revenue:				
Donations	4,500	4,500	2,360	(2,140)
Sale of property	100,000	100,000	0	(100,000)
Other revenue	28,000	28,000	16,113	(11,887)
	<u>132,500</u>	<u>132,500</u>	<u>18,473</u>	<u>(114,027)</u>
 Total Revenues	 1,447,499	 1,447,499	 1,312,339	 (127,160)
Expenditures				
Legislative:				
Council	7,600	7,600	7,250	350
General government:				
Mayor	7,300	7,300	6,508	792
City administrator	39,600	39,600	27,552	12,048
Election	4,100	4,100	4,016	84
Audit	8,100	8,300	8,200	100
Assessor	19,700	19,700	16,202	3,498
Attorney	25,600	25,600	29,033	(3,433)
Clerk	49,225	49,225	45,223	4,002
Board of review	1,100	1,100	780	320
Treasurer	39,500	39,500	36,715	2,785
City hall and grounds	40,500	40,500	27,243	13,257
Industrial park	500	500	695	(195)
Other	25,000	25,000	28,460	(3,460)
	<u>260,225</u>	<u>260,425</u>	<u>230,627</u>	<u>29,798</u>
Public safety:				
Police department	218,862	218,862	213,051	5,811
Fire department	82,700	82,700	78,318	4,382
Building inspection	33,200	33,200	29,264	3,936
Urban planning	14,500	14,500	5,400	9,100
	<u>349,262</u>	<u>349,262</u>	<u>326,033</u>	<u>23,229</u>

CITY OF LUNA PIER

*General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures(Concluded)				
Public works:				
Public works	\$137,800	\$137,800	\$115,661	\$22,139
Streetlights	25,000	40,000	40,764	(764)
Refuse collection	66,000	66,000	70,369	(4,369)
Water department	300	300	200	100
	<u>229,100</u>	<u>244,100</u>	<u>226,994</u>	<u>17,106</u>
Recreation and cultural:				
Recreation	33,400	33,400	20,280	13,120
Water tower park	11,200	11,200	10,460	740
Library	5,200	5,200	3,875	1,325
	<u>49,800</u>	<u>49,800</u>	<u>34,615</u>	<u>15,185</u>
Other:				
Insurance and bonds	70,000	58,000	61,410	(3,410)
Hospital and dental insurance	300,000	229,300	178,210	51,090
Life insurance	4,500	7,000	10,803	(3,803)
Pension	50,000	115,000	114,530	470
Social security	28,000	28,000	33,178	(5,178)
Unemployment and buy out	1,000	1,000	0	1,000
Workers compensation	16,000	16,000	4,556	11,444
Grand pump	25,800	25,800	1,937	23,863
Engineering	2,000	2,000	300	1,700
Contingencies	90,000	90,000	0	90,000
	<u>587,300</u>	<u>572,100</u>	<u>404,924</u>	<u>167,176</u>
 Total Expenditures	 <u>1,483,287</u>	 <u>1,483,287</u>	 <u>1,230,443</u>	 <u>252,844</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>(35,788)</u>	 <u>(35,788)</u>	 <u>81,896</u>	 <u>125,684</u>
 Other Financing Sources (Uses)				
Operating transfer out	<u>0</u>	<u>0</u>	<u>(83,595)</u>	<u>(83,595)</u>
 Net Change in Fund Balances	 <u>(35,788)</u>	 <u>(35,788)</u>	 <u>(1,699)</u>	 <u>42,089</u>
 Fund Balances - Beginning of year	 <u>525,833</u>	 <u>525,833</u>	 <u>843,528</u>	 <u>317,695</u>
 Fund Balances - End of year	 <u><u>\$490,045</u></u>	 <u><u>\$490,045</u></u>	 <u><u>\$841,829</u></u>	 <u><u>\$359,784</u></u>

CITY OF LUNA PIER

Major Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants:				
Gas and weight tax	\$62,000	\$62,000	\$59,958	(\$2,042)
Interest income	15,000	15,000	13,586	(1,414)
Total Revenues	77,000	77,000	73,544	(3,456)
Expenditures				
Public works:				
Preservation	83,000	83,000	5,562	77,438
Routine maintenance	84,000	84,000	18,939	65,061
Traffic services	4,200	4,200	3,729	471
Winter maintenance	5,400	5,400	6,496	(1,096)
Administrative and engineering	2,725	2,725	2,650	75
Contingencies	150,000	150,000	0	150,000
Total Expenditures	329,325	329,325	37,376	291,949
Excess (Deficiency) of Revenues Over Expenditures	(252,325)	(252,325)	36,168	288,493
Other Financing Sources (Uses)				
Operating transfer out	(15,000)	(15,000)	(29,979)	(14,979)
Net Change in Fund Balances	(267,325)	(267,325)	6,189	273,514
Fund Balances - Beginning of year	498,310	498,310	471,303	(27,007)
Fund Balances - End of year	<u>\$230,985</u>	<u>\$230,985</u>	<u>\$477,492</u>	<u>\$246,507</u>

CITY OF LUNA PIER

*Local Street Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants:				
Gas and weight tax	\$37,000	\$37,000	\$36,624	(\$376)
Local grants	0	0	12,976	12,976
Interest income	1,100	1,100	182	(918)
Total Revenues	38,100	38,100	49,782	11,682
Expenditures				
Public works:				
Preservation	50,000	50,000	79,837	(29,837)
Routine maintenance	58,400	58,400	24,041	34,359
Traffic services	6,400	6,400	7,712	(1,312)
Winter maintenance	8,600	8,600	10,557	(1,957)
Administrative and engineering	3,300	3,300	3,185	115
Contingencies	300	300	0	300
Total Expenditures	127,000	127,000	125,332	1,668
Excess (Deficiency) of Revenues Over Expenditures	(88,900)	(88,900)	(75,550)	13,350
Other Financing Sources (Uses)				
Operating transfer in	73,000	73,000	59,979	(13,021)
Net Change in Fund Balances	(15,900)	(15,900)	(15,571)	329
Fund Balances - Beginning of year	58,333	58,333	26,333	(32,000)
Fund Balances - End of year	\$42,433	\$42,433	\$10,762	(\$31,671)

CITY OF LUNA PIER

*Special Road Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest income	\$750	\$750	\$669	(\$81)
Total Revenues	750	750	669	(81)
Expenditures				
Public works:				
Audit	500	500	500	0
Contingencies	500	500	0	500
Total Expenditures	1,000	1,000	500	500
Excess (Deficiency) of Revenues Over Expenditures	(250)	(250)	169	419
Other Financing Sources (Uses)				
Operating transfer out	(58,050)	(58,050)	(30,000)	28,050
Net Change in Fund Balances	(58,300)	(58,300)	(29,831)	28,469
Fund Balances - Beginning of year	59,200	59,200	59,724	524
Fund Balances - End of year	\$900	\$900	\$29,893	\$28,993

CITY OF LUNA PIER

*Community Development Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Federal Grant	\$0	\$0	\$30,345	\$30,345
Interest income:				
Investments	5,000	5,000	4,027	(973)
Loans	1,000	1,000	511	(489)
	<u>6,000</u>	<u>6,000</u>	<u>4,538</u>	<u>(1,462)</u>
 Total Revenues	 6,000	 6,000	 34,883	 28,883
Expenditures				
General government:				
Administration	1,150	1,150	452	698
Audit	950	950	800	150
Projects	<u>16,000</u>	<u>16,000</u>	<u>0</u>	<u>16,000</u>
 Total Expenditures	 <u>18,100</u>	 <u>18,100</u>	 <u>1,252</u>	 <u>16,848</u>
 Net Change in Fund Balances	 (12,100)	 (12,100)	 33,631	 45,731
 Fund Balances - Beginning of year	 <u>159,911</u>	 <u>159,911</u>	 <u>276,209</u>	 <u>116,298</u>
 Fund Balances - End of year	 <u><u>\$147,811</u></u>	 <u><u>\$147,811</u></u>	 <u><u>\$309,840</u></u>	 <u><u>\$162,029</u></u>

CITY OF LUNA PIER

Debt Retirement Fund Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Charges for services:				
Water usage charge	\$12,000	\$12,000	\$0	(\$12,000)
Interest income	50	50	0	(50)
Total Revenues	12,050	12,050	0	(12,050)
Expenditures				
General government:				
Audit fees	700	700	0	700
Agency Fees	100	100	0	100
Contingency	247	247	0	247
	1,047	1,047	0	1,047
Debt service:				
Principal	9,612	9,612	0	9,612
Interest	1,391	1,391	0	1,391
	11,003	11,003	0	11,003
Total Expenditures	12,050	12,050	0	12,050
Net Change in Fund Balances	0	0	0	0
Fund Balances - Beginning of year	3,028	3,028	3,028	0
Fund Balances - End of year	\$3,028	\$3,028	\$3,028	\$0

CITY OF LUNA PIER

*Flood Control Facilities Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property taxes				
Property taxes	\$94,000	\$94,000	\$99,398	\$5,398
Payment in lieu of taxes	500	500	0	(500)
Penalties and interest	100	100	84	(16)
	<u>94,600</u>	<u>94,600</u>	<u>99,482</u>	<u>4,882</u>
Interest income	<u>15,000</u>	<u>15,000</u>	<u>16,603</u>	<u>1,603</u>
Total Revenues	109,600	109,600	116,085	6,485
Expenditures				
Public works:				
Dike maintenance	200,000	200,000	50,189	149,811
Emergency maintenance	200,000	200,000	0	200,000
Engineering fees	10,000	10,000	2,200	7,800
Attorney fees	1,000	1,000	0	1,000
Miscellaneous	2,500	2,500	550	1,950
Contingency	<u>75,000</u>	<u>75,000</u>	<u>0</u>	<u>75,000</u>
Total Expenditures	<u>488,500</u>	<u>488,500</u>	<u>52,939</u>	<u>435,561</u>
Net Change in Fund Balances	(378,900)	(378,900)	63,146	442,046
Fund Balances - Beginning of year	<u>449,689</u>	<u>449,689</u>	<u>458,281</u>	<u>8,592</u>
Fund Balances - End of year	<u><u>\$70,789</u></u>	<u><u>\$70,789</u></u>	<u><u>\$521,427</u></u>	<u><u>\$450,638</u></u>

CITY OF LUNA PIER

Fire Millage Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property taxes	\$0	\$0	\$11	\$11
Interest income	50	50	0	(50)
Total Revenues	50	50	11	(39)
Expenditures				
Public safety:				
Fire department:				
Miscellaneous	8,000	8,000	0	8,000
Total Expenditures	8,000	8,000	0	8,000
Net Changes in Fund Balances	(7,950)	(7,950)	11	7,961
Fund Balances - Beginning of year	8,629	8,629	13,195	4,566
Fund Balances - End of year	<u>\$679</u>	<u>\$679</u>	<u>\$13,206</u>	<u>\$12,527</u>

CITY OF LUNA PIER

Tax Collection Agency Fund
Statement of Changes in Assets and Liabilities
June 30, 2008

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash	<u>\$1,361</u>	<u>\$4,262,958</u>	<u>\$4,263,319</u>	<u>\$1,000</u>
Liabilities				
Due to other taxing units	\$1,087	\$1,087,215	\$1,087,302	\$1,000
Due to other governmental units	<u>274</u>	<u>3,175,743</u>	<u>3,176,017</u>	<u>0</u>
Total Liabilities	<u>\$1,361</u>	<u>\$4,262,958</u>	<u>\$4,263,319</u>	<u>\$1,000</u>

CITY OF LUNA PIER

Waste Water Treatment Plant Fund Comparative Statement of Revenues, Expenses, and Changes in Fund Net Assets Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Charges for services:		
Sewer use charge - Luna Pier	\$195,767	\$106,373
Sewer use charge - LaSalle Township	85,673	69,480
User fees - Mason School	2,800	2,000
	<u>284,240</u>	<u>177,853</u>
Other revenue	808	30
Permits	340	4,050
Penalties	0	266
	<u>285,388</u>	<u>182,199</u>
Operating Expenses		
Sewer processing and maintenance:		
Salaries	118,140	105,487
Payroll taxes	9,038	8,070
Workers compensation	2,482	2,701
Pension	40,925	23,766
Hospitalization insurance	35,000	29,779
Life Insurance	992	1,654
Insurance	11,726	13,408
Supplies and chemicals	38,894	32,448
Contracted services	60,305	69,296
Utilities and telephone	25,256	28,911
Maintenance	9,044	11,377
Schooling	1,075	920
Miscellaneous	1,367	2,142
Depreciation	74,023	74,235
	<u>428,267</u>	<u>404,194</u>
Administration:		
Salaries	3,159	2,890
Fringe benefits	790	722
Audit fees	2,200	1,800
	<u>6,149</u>	<u>5,412</u>
	<u>434,416</u>	<u>409,606</u>
Total Operating Expenses		
	<u>434,416</u>	<u>409,606</u>
Net Operating Income (Loss)	(149,028)	(227,407)
Non-Operating Revenues (Expenses)		
Interest income	98	1,379
	<u>98</u>	<u>1,379</u>
Total Non-Operating Revenues (Expenses)		
	<u>98</u>	<u>1,379</u>
Net Income (Loss) Before Transfers	(148,930)	(226,028)
Transfers in	83,595	63,498
	<u>83,595</u>	<u>63,498</u>
Change in Net Assets	(65,335)	(162,530)
Net Assets - Beginning of year	1,898,531	2,061,061
Net Assets - End of year	<u>\$1,833,196</u>	<u>\$1,898,531</u>



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Mayor and City Council
City of Luna Pier
Monroe County, Michigan

In planning and performing our audit of the financial statements of the City of Luna Pier as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness.

Financial Statements

The City does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenues and expenditures, to track changes in capital assets, and to present required financial statement disclosures. As is the case with many smaller and medium-sized entities, the government has historically relied on independent external auditors to assist in the preparation of the government-wide financial statements and footnotes. As a result of this condition, the government lacks internal controls over the preparation of the financial statements in accordance with GAAP.

Mayor and City Council
City of Luna Pier

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The following comments are not significant deficiencies or material weaknesses but are suggestions to improve your existing accounting and control systems.

Sewer Charges

South County Water bills and collects the sewer billing for the City. Currently, the City periodically reviews the billing reports received from South County Water. Another procedure to help assure completeness and accuracy of the billing process would be to periodically reconcile the Due to Luna Pier – Sewer Accounts with the outstanding accounts receivable reports maintained by South County Water.

Retiree Health Care Benefits

There is a new governmental accounting standard (GASB No. 45) which is going to require the City to recognize the cost of providing retiree health care over the working life of the employee, rather than at the time the health care premiums are paid. An actuarial study will need to be completed to provide this information to the City. This study may also assist the City in determining the possibility of starting to pre-fund this cost. This liability will need to be recognized on the June 30, 2009 financial statements.

We appreciate the cooperation and courtesy extended to us by the officials and employees of the City during the audit engagement. We are encouraged by the City's efforts to improve and maintain a sound internal accounting control system and by the efficiency of those people involved. It is our pleasure to have been of service to the City of Luna Pier.

Very truly yours,



September 19, 2008